

MOTION BY MAYOR MICHAEL D. ANTONOVICH

AUGUST 16, 2011

A recent accounting review of the City of Vernon's annual financial reports found a steady decline in the city's finances since 2005 due to risky investments, swelling debt and dwindling revenues.

The city has issued over a billion dollars in bonds between 2003 and 2009, both to invest in capital projects and to refinance previous debt. Vernon's publicly owned utility company issued \$431 million in municipal bonds to purchase a 15-year supply of natural gas at a fixed rate of \$7.50 per unit. Natural gas has since dipped as low as \$3 per unit and now sits at \$4.12.

Despite monetary losses on the purchase of long-term natural gas supply, Vernon moved forward on another major investment in its energy business, to build the \$500 million Southeast Regional Energy Center. Vernon spent heavily on lawyers and lobbyists to push the project but later abandoned it due to neighboring opposition.

Vernon also became extensively involved in derivative trading. However, as interest rates fell sharply, Vernon's derivative trades became extremely costly. The city reported about \$24 million in investment losses in 2008, \$25 million in 2009 and \$20 million in 2010, which the city's own auditors largely attributed to a "decrease in fair value of derivative instruments." The city chose to get out of some of the agreements last year, according to a source familiar with the decision, paying about \$40 million to terminate the deals.

Bad business practices and questionable investments have left Vernon with dwindling revenue and rising debt. As AB 32 proceeds and the City of Vernon is pushed to disincorporation, the County must investigate what impact Vernon's debt will have on our budget.

I, THEREFORE, MOVE that the Board of Supervisors direct the Chief Executive Officer to determine the impact of Vernon's debt on the County's budget and report back to the board within 2 weeks.

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